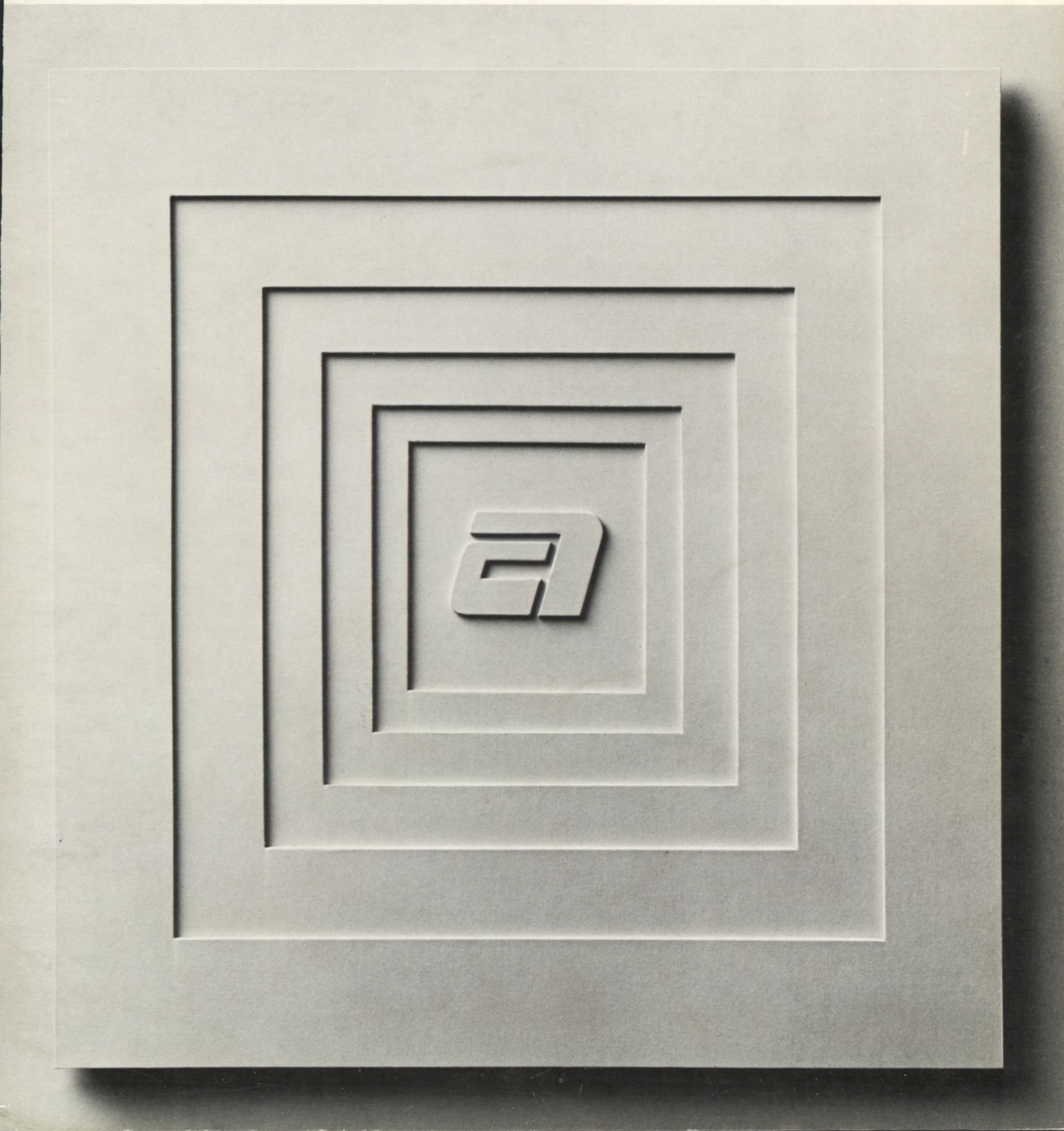
Acme-Cleveland Corporation Annual Report 1976

Perspective On Objectives / A Management Appraisal



ACME-CLEVELAND CORPORATION

1976 ANNUAL REPORT

CONTENTS

GENERAL COUNSEL
Thompson, Hine and Flory, Cleveland, Ohio

AUDITORS
Ernst & Ernst

TRANSFER AGENT AND REGISTRAR
The Cleveland Trust Company, Cleveland, Ohio

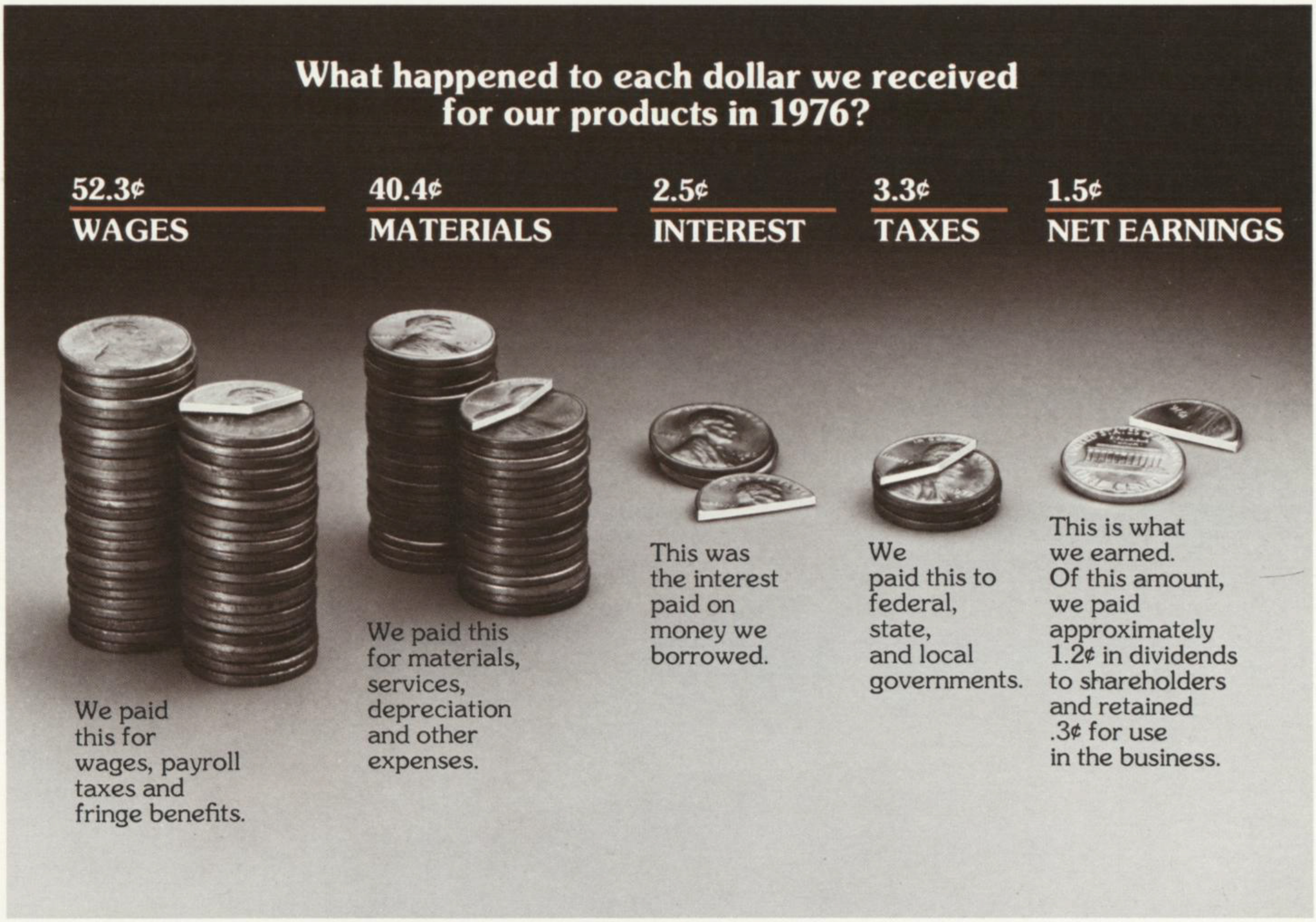
LISTING
Acme-Cleveland Corporation common shares are listed on the New York Stock Exchange under the ticker symbol AMT.

ANNUAL MEETING OF SHAREHOLDERS
The annual meeting will be held at 10 a.m. on January 27, 1977. Shareholders of record on December 9, 1976 will be entitled to vote. The notice, proxy statement and proxy for the meeting will be mailed to shareholders of record on or about December 28, 1976.

SEC 10-K REPORT
Copies of Acme-Cleveland's 10-K report, filed with the Securities and Exchange Commission, are available at no charge upon written request to the Secretary, Acme-Cleveland Corporation, P.O. Box 5617, Cleveland, Ohio 44101.

FINANCIAL HIGHLIGHTS

	YEAR ENDED SEPTEMBER 30	
	1976	1975
Net Sales	**$194,089,000**	$231,490,000
Net Earnings	**2,912,000**	6,955,000
Earnings Per Common Share	**.65**	1.56
Dividends Per Common Share	**.50**	.625
Plant and Equipment:		
Expenditures	**8,528,000**	8,236,000
Depreciation	**4,926,000**	4,758,000
Number of Shareholders	**7,001**	7,530
Number of Employees	**5,449**	6,488



PRESIDENT'S REPORT

TO SHAREHOLDERS

Those of us employed in the management of businesses which provide capital equipment have come to expect wide swings in the demand for our products. We have had to learn how to cut back during depressed periods by carefully managing all overhead expenses and, where necessary, reducing employment. On the other hand, when our customers require our products in increased amounts, we must be in a position to meet their requirements by raising the output of our manufacturing facilities. The 1975-76 capital equipment recession was severe in the United States. At the same time as our economy was depressed, almost all of the economies of the world contracted, in part because of repercussions from the oil embargo and the sudden increase in the cost of petroleum products.

Acme-Cleveland was able to ride out the recession in the United States with reasonable success. However, our subsidiaries in Europe suffered severe losses because of the various legislative requirements which deprived our management of the ability to control overhead expenses and reduce employment. Legislation which purported to save jobs and protect the security of workers had the opposite effect. We were faced with the decision either to make substantial additional investments in three of our foreign subsidiaries in the hope that the socio-political-economic environment would improve, or to dispose of these investments. This was a difficult decision because the existence of these foreign subsidiaries has opened new world markets for Acme-Cleveland and enabled us to increase exports greatly from the United States.

However, the poor prospects of earning a satisfactory return on these foreign investments within the reasonable future and their heavy continuing losses persuaded us to sell Cleveland Twist Drill Limited, our British subsidiary, to liquidate Cleveland Twist Drill Nederland, and to begin an orderly disinvestment from LaSalle-Italia. Details of the results or current status of these efforts are reported in other sections of this report. I believe we will be successful in implementing these disinvestments without losing the benefits of our penetration of world markets. We have been and will continue seeking revenues and earnings throughout the world by aggressive marketing, licensing agreements, joint ventures and direct investment in manufacturing facilities wherever the socio-political-economic environment appears favorable long-term.

In our 1975 annual report we listed six primary corporate objectives. Throughout this past fiscal year, we have worked toward their achievement. The first two are aimed at the improvement of the financial strength of the Corporation and of the return on net assets employed in each of our operations. The financial statements in this year's report do show considerable improvement in our financial position, but the restoration of acceptable levels of earnings and return on investment is still to be accomplished, and is the number one priority throughout the Corporation. We will not consider our performance to be satisfactory until we are earning, after taxes, at least 5% on sales and at least 15% on shareholders' equity.

Increased attention has been devoted to management development throughout the Corporation in response to our third objective, to develop and efficiently employ all our human resources. Many employees have been promoted to positions of greater responsibility and challenge in the past year.

Capital expenditures totalling $8.5 million were made in fiscal 1976 to maintain and improve our productive facilities in the continuing effort, spelled out by our fourth objective, to maintain the most highly efficient plant and equipment possible. Major projects completed during the year were a new plant in Kewanee, Illinois for our Shalco Systems Division and a parts distribution center in Fremont, Ohio for our machine tool operations. Smaller profit-improving capital expenditures for production equipment are being made on a continuing basis, and every effort is exerted to accelerate the return on these investments.

The fifth and sixth objectives are to strengthen our world-wide marketing efforts and to exploit advantages inherent in the complementary nature of Acme-Cleveland's various products and technological capabilities. In a significant step toward achieving these objectives, the position of Vice President-Marketing was established and filled during this past year.

Acme-Cleveland Development Company, which was organized in 1973 in order to bring together the research and development activities of our various operations in one location and under one manager, continued throughout the recession without any curtailment. Many new products and manufacturing cost reductions have resulted. New products for the foundry equipment, machine tool, expendable cutting tool, and controls divisions are being well received by our customers and hold great promise for the future.

In December of 1975, Stephen M. DuBrul was named President and Chairman of the Export-Import Bank of the United States, making it necessary for him to resign from our Board of Directors. We miss his significant contributions to our Corporation.

Arthur S. Armstrong retired as Chairman of the Board on February 29, 1976 after forty-three years of exceptional service to Acme-Cleveland Corporation and The Cleveland Twist Drill Company. Mr. Armstrong is remaining as a Director and as Chairman of the Finance Committee, and, fortunately, we will continue to have the benefit of his experience and advice as a consultant.

Looking ahead, I believe that your Company is well prepared to respond effectively to the growing requirements of our customers. We have the people, buildings, equipment, inventories and the financial strength to do the job.

W. Paul Cooper

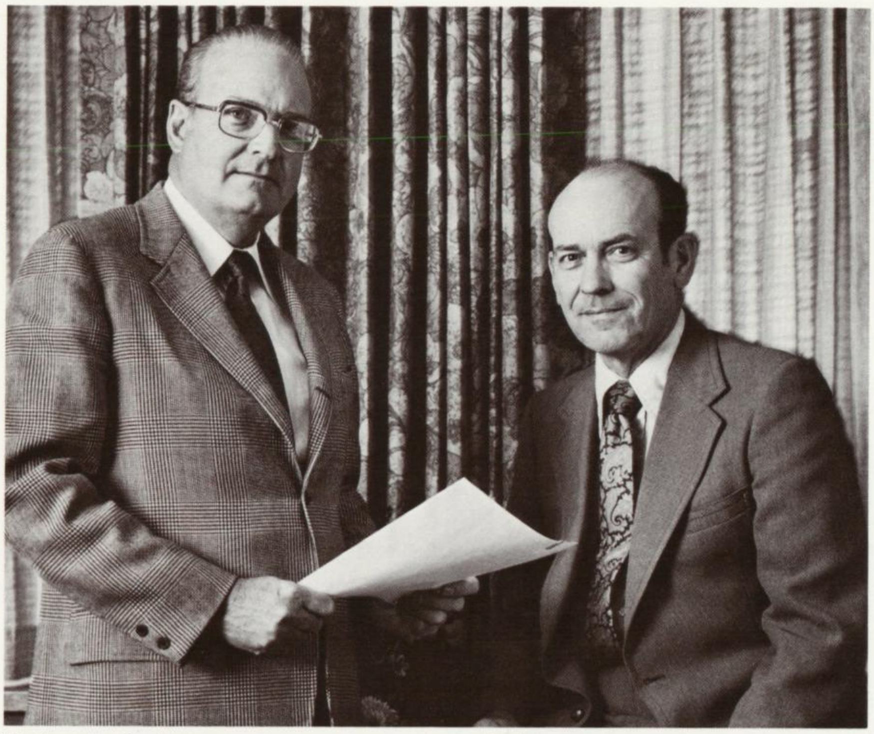
W. Paul Cooper
President and
Chief Executive Officer

December 22, 1976

PERSPECTIVE ON OBJECTIVES

A MANAGEMENT APPRAISAL

For this year's Annual Report, members of our management have answered a number of questions which are typical of those asked during the year by people interested in Acme-Cleveland. We thought the responses would be significant to our shareholders. Those who furnished the answers are Messrs. W. Paul Cooper, President and Chief Executive Officer; Herbert A. Gardner, Vice President-Marketing; Lawrence R. Cowin, Jr., Vice President-Finance; and David L. Williams, Director of Planning.



Herbert A. Gardner W. Paul Cooper

Q/ You have just come through a year of depressed sales and earnings. What were the primary causes?

A/ Mr. Cooper:

The entire capital equipment industry has just been through a severe recession particularly affecting investments in expensive machine tools and manufacturing systems. Many of our customers, because of uncertainty about the future, the high cost of money and the difficulty of raising new capital, held back on plans both to improve the productivity of their operations and to expand manufacturing facilities.

The slow rate of incoming orders in fiscal 1975 and a substantial part of 1976 led to lower shipments for us during the past fiscal year. Earnings declined by a greater percentage than shipments because many of our operations require large investments and, therefore, have high fixed costs. There were opportunities to reduce certain overhead costs. We might have slowed our programs of modernizing plants and expanding manufacturing facilities. We could have reduced development work.

However, we chose to maintain the forward thrust of all of these programs in confidence that the recession would end, and we could look forward to healthy markets for our products again, and eventually to better earnings.

Q/ What is happening currently to orders and backlogs, and how will they impact fiscal 1977 sales of your operating divisions?

A/ Mr. Cooper:

Throughout 1976 we have seen our various product lines begin recovery from the recession following the usual pattern.

Cleveland Twist Drill's expendable cutting tool sales improved steadily month by month so that the total for fiscal year 1976 was slightly ahead of fiscal 1975. A monthly sales chart of the two years produces a "V" with 1975 down and 1976 up. We expect 1977 to show further improvement of about 20% over 1976.

Shalco Systems' foundry equipment shipments in fiscal 1976 were about 24% behind those of 1975. Orders, however, have moved up, and for fiscal 1977 we're looking for an increase in shipments of about 25% over 1976 levels.

Fiscal 1976 shipments of machine tools by National Acme were equal to those of 1975, but were accompanied by a marked decline in the order backlog. New orders began to approach a healthy level only in the last two months of this year. We expect 1977 shipments to be slightly higher than 1976.

LaSalle Machine Tool's 1976 shipments were about 43% less than 1975; however, incoming orders have increased so that shipments should be up by approximately 25% in 1977.

Our Namco Controls division had slightly higher sales this year than in 1975. Orders continue to pick up and we expect shipments in 1977 to be about 15% ahead of 1976.

For Acme-Cleveland in total, shipments in fiscal 1976 were off 16% compared with 1975. All divisions are expected to show a gain in 1977 over 1976; however, the improvement may not be constant throughout the year.

Shipments of approximately $12 million from the three terminated foreign subsidiaries will not, of course, appear in our fiscal 1977 figures. In view of this, 1977 total shipments are expected to be only about 12% better than for 1976.

Our order backlog, after reaching a high of over $190 million in 1974, dropped to a low of $65 million in March, 1976. By the end of October it had recovered to $96 million.

Q/ What are some of the major steps you have taken to improve future earnings performance?

A/ Mr. Cooper:

I am proud of the fact that throughout our Acme-Cleveland divisions we are continuously working at profit improvement. Some of these programs are expensive in the amount of planning and in the capital investment required to implement them, but these efforts continued throughout the recent recession. For example, in November of 1975 we put into operation a new foundry equipment plant and expect to achieve considerable improvement in manufacturing margins employing these new facilities. In the summer of 1976 we opened a new parts distribution center that will enable us to meet our customer requirements for prompt service on replacement parts, utilizing computers and automated material handling equipment to take care of order receipt, order entry and shipments at greatly reduced costs. There have been literally hundreds of smaller improvements in manufacturing processes and in the design of our products to enable us to produce them more efficiently. This process is going on continually.

PERSPECTIVE
ON OBJECTIVES
A MANAGEMENT APPRAISAL

Q/ In the last capital spending boom in 1973-74 you ran into productive capacity limitations, particularly in the supply of trained manpower. What steps have you taken during the recent recession to lessen the effects of this problem in the order upsurge you see coming?

A/ Mr. Cooper:
First, we made every effort to retain as many of our skilled people as possible by building inventories where that was prudent and by shortening work weeks rather than laying people off. It does appear that the recession has ended in timely fashion, so that we are in a relatively good position to cope with the upturn in business.

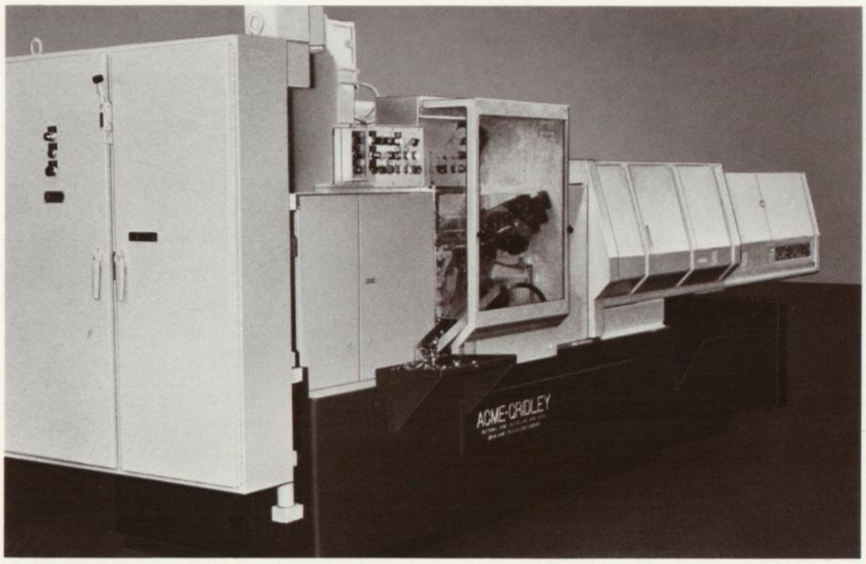
Another thing we tried to do was to provide people with multiple skills, so that we will have flexibility as business picks up to move them from job to job and to reduce the training problem. Otherwise, in a number of our highly skilled operations, we are faced with a one teacher-one trainee situation for many weeks. I believe we are in a much better position this time to handle our customer requirements, particularly if the recovery is gradual.

Q/ Acme-Cleveland created and filled a new management position in marketing this past year indicating that you see opportunities in more closely coordinating the marketing efforts of the operating divisions. Could you tell us what some of the opportunities are?

A/ Mr. Cooper:
There has always been some cooperation among our operating divisions in trying to meet our customers' needs. However, increasingly, customers, particularly our foreign customers, have been approaching us expecting that they could reach into all of the technologies of Acme-Cleveland through one person. It is for this reason that a Vice President-Marketing has been elected. He can represent the Corporation with any customer and call on the sales people of the respective divisions to satisfy the customer's needs. In the short time since this responsibility has been established, it has become apparent that we can do a much better job with both domestic and foreign customers. Thus, our customers will be better served, and it will be easier for them to do business with Acme-Cleveland.

Q/ What new products or product improvements have come out of your research and development center during the past year? Is there anything just over the horizon you could tell us about?

A/ Mr. Gardner:
The first of a new line of multiple spindle bar machines with many new features has been developed. These machines offer substantially higher productivity to our customers and at the same time use less energy and operate at lower noise levels. One of these six-spindle machines is now running in a customer's plant



New Acme-Gridley multiple spindle automatic bar machine.

producing parts that formerly could only have been made on an eight-spindle machine.

Major improvements were designed, manufactured and proven for our foundry equipment division on several of their machines. Every one of these improvements offers cost savings to our customers.

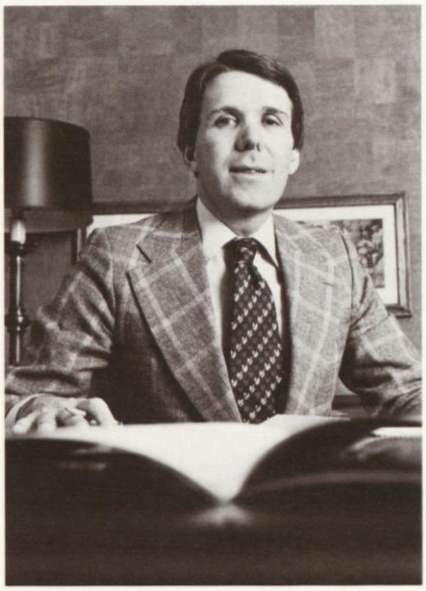
New or improved products were developed for our electrical controls division. These include a broken cutting tool detector system which should find its major application in transfer lines, preventing production of improperly machined components.

Actually, the accomplishments of our R & D center this past year for all divisions of Acme-Cleveland are too numerous to discuss without listing each new product or improvement and then going into application details. During fiscal 1976 we filed three patent applications, processed sixty-eight patent office actions, and obtained approval of ten new patents.

As to the future, it should be understood that our research and development center is increasing its skills and gaining momentum all the time. It takes time to select projects for R & D, complete the studies, and manufacture prototypes or prove new methods before releasing the end results to our divisions. There are a great number of very important projects moving through R & D in an orderly manner. Each year should see an increasingly large number of these projects successfully completed. This will mean new or improved products and systems, or lower costs to produce current products, with resulting savings both to our customers and our Corporation.

Q/ Your financial position as shown in this annual report is much stronger than it was a year ago. What are the major causes of this improvement?

A/ Mr. Cowin:
Our debt to equity ratio improvement can be accounted for by disinvestment in foreign subsidiaries and reduction in inventories and receivables brought about by improvements in our control systems and in response to a lower sales level. Disposal of two foreign subsidiaries not only brought in cash, but also eliminated their debt requirements.



Lawrence R. Cowin, Jr.

Q/ What level of capital expenditures do you anticipate in fiscal 1977?

A/ Mr. Cowin:
In fiscal year 1977, we expect to spend about $8,000,000 for capital items. The recently established corporate capital justification system is providing a sound basis for ranking the importance of capital acquisition projects.

PERSPECTIVE ON OBJECTIVES
A MANAGEMENT APPRAISAL

Q/ Your company found it necessary to cut your dividend in half in 1975. What do you see in terms of dividend action by the Board in 1977?

A/ Mr. Cooper:
With the wide swings in earnings we have experienced in recent years, our Board has been willing to see a major portion of depressed earnings paid out in dividends in order to maintain our forty year practice of paying regular quarterly dividends.

However, because of inadequate capital recovery resulting from depreciation at historic costs during a period of high inflation, it will be necessary in the future to retain a larger portion of improved earnings for reinvestment in the business. Even so, I am sure that as earnings improve, our Board of Directors will consider dividend action carefully, keeping in mind our shareholders' interest in increased dividend income.

Q/ In the past year you have disposed of two European manufacturing operations and are in process of disposing of a third. How will this affect your foreign business near-term and long-term, and do you plan any further changes in your foreign facilities?

A/ Mr. Cooper:
Let me take the second part of that question first. We are planning no further changes in our foreign investments beyond the three.

Addressing the first part of the question, we feel that our world markets are important. The three foreign subsidiaries were acquired or established in order to manufacture in the foreign countries and get deeper penetration in those markets. We are working hard to maintain the market position we achieved. Our products are well known world-wide. The foreign subsidiaries performed a very useful function, but, in the last analysis, aggressive marketing is the key to maintaining foreign business. This will further explain the establishment of the corporate marketing function.

Q/ How do you view the economic outlook for the capital equipment industry, and more specifically, the machine tool industry, over the next five years?

A/ Mr. Williams:
We must pass through the short-term before we get to the long-term outlook for capital equipment, so let me touch on the short-term first.

Business expansions have an average life of about three years — trough to peak. The first half of this period is primarily fueled by an expansion in consumer goods activity. We have now moved into the second half of the current period of expansion, and, thus, we should see a marked increase in capital goods activity. The signs of this are clearly present. The rate of new orders in the last six months is sharply up from that of the previous six months. Capacity utilization is rising. Profits have improved — and so have balance sheets. The planned increase in plant and equipment spending in 1977 is about twice the increase that will be recorded in 1976. Thus the short-term outlook is bright, and we would include in this 1978 as well as 1977.


David L. Williams

The longer-term investment needs of our economy, and, in fact, the world economy, cause me to be optimistic about the long term outlook for capital equipment, also. It's beginning to be more fully realized that capital investment plays a major role in solving both the inflation *and* the unemployment problems with which the major nations of the world are wrestling. Basically, capital investment is essential to provide the tools and equipment that are needed to support an expansion of the work force (thereby reducing unemployment), and to provide the increase in productivity that is essential to offset rising labor and material costs.

Capital investment alone can't solve the twin evils of inflation and unemployment, of course. Highly essential are sound fiscal and monetary policies. But, increasingly, recognition is being given to the need to encourage capital investment as one of the aspects of sound policy. We can take some encouragement from this, both from the standpoint of our company and of the nation as a whole.

In addition to the anticipated increase in plant and equipment spending previously mentioned, I think it is important to note that the household formation numbers over the next decade are particularly strong. The implications for consumer durables are very favorable, and, therefore, the implications for Acme-Cleveland, as a supplier to consumer durables producers, are also quite favorable.

Q/ As a follow-up to that question, what efforts have you made to reduce the cyclicality of your business?

A/ Mr. Cooper:

We're moderating the overall Acme-Cleveland cycle by building a group of operating divisions, each of which has a cycle, but for which the cycles do not coincide. The demand for our expendable cutting tools is always the first to come back at the end of a recession. On the other hand, when business turns down we find a reduction in orders for expendable items appearing more quickly. Our capital equipment line, however, has somewhat different cyclical timing. Because the lead times of various types of equipment, meaning the time between receipt of an order and shipment, vary from four months to two years, the effect on earnings is spread out. Taking all of these different cycles and lead times together, we get a more moderate cyclical pattern than if we look at any one of our divisions individually.

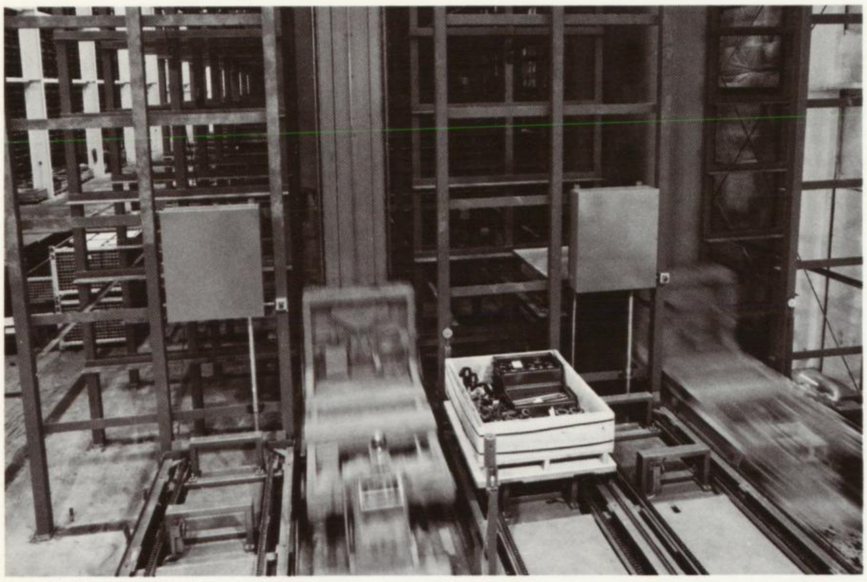
Q/ Servicing of your equipment and the sale of service parts for it are obviously important. What steps are you taking to make this business more efficient and profitable?

A/ Mr. Gardner:

Actually, our first efforts are directed at reducing our customers' needs for service as much as possible. We monitor all service requests received, as well as components reordered, to determine if design improvements and/or product quality improvements are possible. Service offered to our customers varies somewhat by division and type of equipment sold.

During this past year, a program was instituted by one of our major divisions to insure faster technical response time by a combination of additional training, expansion and relocation of its technical support staff.

PERSPECTIVE ON OBJECTIVES A MANAGEMENT APPRAISAL



Mechanized stacker moves in and out of high-rise storage compartment aisles at new automated parts distribution center, Fremont, Ohio.

Inventories of replacement parts have been restudied, and, where warranted, the quantities of items carried have been adjusted. Product code numbers have been assigned to thousands of additional products and parts which will facilitate identification, order processing and shipping through recently expanded computer controlled systems. The new parts distribution center in Fremont, Ohio, was put on stream, and the impact and efficiencies of the installation will be realized to a much greater extent in fiscal 1977 as this facility comes into full use. Better service to the customer and lower handling costs to the Corporation should result.

A new service center in Germany was established to better serve our European foundry equipment customers and to reduce communications and other delays in handling that market from the United States.

In another area, customers for our automated machining systems are provided with a list of perishable parts recommending quantities to be ordered and carried by the customer for prompt in-house servicing. Parts costs are reduced as the extras are manufactured along with the original equipment.

Q/ The increasing burden of government regulations is widely discussed these days. What is the extent of their adverse impact on Acme-Cleveland?

A/ Mr. Cooper:
All business is incurring shocking increases in overhead expense in an effort to study the steady stream of new regulations and to insure compliance with them. We look at our payrolls and find many of our people employed full-time today on matters that did not even exist three, four or five years ago.

An equally serious impact has been on our customers, who, because of the uncertainties of environmental protection requirements or OSHA requirements, have slowed their capital expenditure programs. Some of our customer industries have been obliged to commit so many of their capital investment dollars to environmental requirements or OSHA requirements that they have not been able to modernize their equipment for increased productivity, or expand their production base.

The positive side of this is that we see a pent-up demand for increased productivity and for increased capacity, and this is what we are selling. We think Acme-Cleveland is in a good position to supply these needs.

Q/ What major labor contracts will have to be renegotiated in fiscal 1977?

A/ Mr. Cooper:
In our 1976 fiscal year we satisfactorily negotiated contracts with a major portion of our work force. In fiscal 1977 we will have negotiations with groups representing less than 15% of our total employment.

FIVE YEAR SUMMARY OF OPERATIONS AND STATISTICAL REVIEW

Acme-Cleveland Corporation and Subsidiaries

	1976 (1)	**1975** (1)	**1974** (1)	**1973**	**1972**
Summary of Operations					
Net Sales	**$194,088,642**	$231,489,665	$169,442,363	$127,850,966	$96,001,120
Cost of Products Sold	**143,008,384**	170,670,207	126,022,710	90,417,166	68,541,413
Interest Expense	**5,027,068**	6,919,170	3,486,962	991,969	782,509
Earnings Before Taxes	**5,389,716**	12,771,490	10,493,880	12,563,828	6,056,604
Income Taxes	**2,478,000**	5,816,000	4,785,000	5,876,000	2,879,000
Net Earnings	**2,911,716**	6,955,490	5,708,880	6,687,828	3,177,604
Net Earnings to Net Sales	**1.5%**	3.0%	3.4%	5.2%	3.3%
Earnings per Common Share	**.65**	1.56	1.43	1.74	.83
Dividends Paid (2)	**2,272,210**	2,823,460	3,985,976	3,148,280	3,075,786
Cash Dividends Paid per Common Share	**.50**	.625	1.00	.82	.80
Other Financial Information					
Current Assets	**100,570,415**	129,200,969	133,731,029	72,362,351	58,323,627
Current Liabilities	**26,264,216**	46,884,880	47,980,021	27,206,073	15,768,995
Working Capital	**74,306,199**	82,316,089	85,751,008	45,156,278	42,554,632
Shareholders' Equity (Net Worth)	**81,800,056**	81,160,550	77,028,520	66,855,616	63,600,922
Shareholders' Equity per Common Share	**18.37**	18.22	17.28	17.42	16.54
Property, Plant, and Equipment — Net	**44,259,575**	47,054,224	43,890,446	31,169,157	29,863,420
Capital Expenditures	**8,528,286**	8,235,977	5,968,552	5,023,718	4,089,657
Depreciation	**4,925,867**	4,757,590	3,706,216	3,234,652	3,046,095
General Information					
Average Number of Common Shares Outstanding	**4,410,017**	4,410,017	3,969,178	3,836,847	3,844,732
Number of Shareholders — Year End	**7,001**	7,530	7,742	7,604	7,632
Number of Employees — Year End	**5,449**	6,488	7,200	5,554	4,912

(1) Includes LaSalle Machine Tool, Inc., purchased as of July 1, 1974.
(2) Includes quarterly dividend requirement for Preferred Shares issued June 28, 1974 of $67,192 in 1976 and 1975, and $16,798 in 1974.

REVENUE AND EARNINGS (LOSS) BEFORE INCOME TAXES BY LINES OF BUSINESS

(In Thousands of Dollars)

	1976 (1)		**1975** (1)		**1974** (1)		**1973**		**1972**	
	Revenue	**Pre-Tax Earnings**	Revenue	Pre-Tax Earnings	Revenue	Pre-Tax Earnings	Revenue	Pre-Tax Earnings	Revenue	Pre-Tax Earnings
Capital Equipment	**$120,883**	**$(1,973)**	$156,619	$ 8,730	$ 90,662	$ 1,663	$ 61,496	$ 3,279	$47,065	$1,775
Expendable Tools	**76,845**	**7,363**	77,704	4,041	81,161	8,831	69,020	9,285	51,055	4,282
TOTAL	**$197,728**	**$ 5,390**	$234,323	$12,771	$171,823	$10,494	$130,516	$12,564	$98,120	$6,057

(1) Includes LaSalle Machine Tool, Inc., purchased as of July 1, 1974.

QUARTERLY DATA —

SALES, NET EARNINGS, COMMON SHARES

Fiscal years ending September 30

Dollars in thousands except per share and stock price data		First Quarter October-December		Second Quarter January-March		Third Quarter April-June		Fourth Quarter July-September	
SALES	1976	$48,289		$49,448		$45,600		$50,752	
	1975	60,130		58,304		58,123		54,933	
NET EARNINGS	1976 (1)	$ 642		$ 365		$ 1,257		$ 648	
	1975	1,405		3,070		1,559		921	
EARNINGS PER SHARE	1976	$ .14		$ .08		$ .28		$ .15	
	1975	.31		.70		.35		.20	
		High	Low	High	Low	High	Low	High	Low
SHARE PRICES (NYSE)	1976	8½	7½	10¼	8⅛	9⅞	8⅜	9¼	8½
	1975	9⅛	7	10⅜	7	10	8⅛	9⅞	7¾
DIVIDENDS PER SHARE	1976	$ .125		$ .125		$ .125		$ .125	
	1975	.25		.125		.125		.125	

(1) During the three months ended September 30, 1976, losses of $222,000 from the devaluation of the Mexican peso and $469,000 from inventory adjustments were recorded. A gain of approximately $555,000 from the disposal of Acme-Cleveland's Netherlands subsidiary was also recognized in the fourth fiscal quarter.

A BRIEF DESCRIPTION

OF THE BUSINESS

Acme-Cleveland Corporation

Acme-Cleveland Corporation is engaged in the manufacture, sale and servicing of tools used in the production of a wide variety of products. The Corporation's business is composed of two lines, capital equipment and expendable tools.

The following major product groups are included in the capital equipment line: transfer machines; automatic multiple spindle bar and chucking machines; equipment, tooling and supplies for the foundry industry; electrical and electronic controls; and complete manufacturing systems. Acme-Cleveland's major market for capital goods products is the automotive industry; however, a wide variety of other industries are served, such as capital equipment, including farm and construction equipment, screw machine products and bearings.

The expendable tools line is made up principally of twist drills, reamers, end mills and threading tools. Expendable tools are sold primarily to the capital equipment, automotive and aerospace industries. A substantial number of other industries are also customers for these products.

Acme-Cleveland markets a number of discrete products. However, it endeavors, wherever possible, to take an integrated approach to customers' requirements for equipment and tooling. A major objective of the Corporation is to be able to supply from its various divisions a complete system to produce a given product or component.

FINANCIAL REVIEW AND MANAGEMENT DISCUSSION

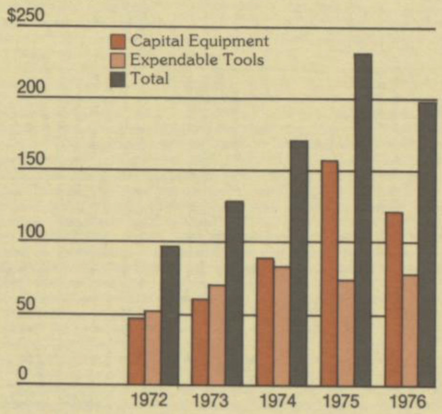
REVENUES AND EARNINGS

In fiscal 1976, net sales decreased $37 million, or 16.2%, from fiscal 1975. The chart shows that this decline was in the capital equipment line. Backlogs of capital equipment orders provided a substantial part of 1976 shipments as the inflow of new orders slackened. Shipments of expendable tools remained constant as the economic recession abated. Cost of products sold as a percentage of net sales remained the same in 1976 as in 1975, even though the total declined due to lower shipment volume. Maintenance and repair expenses were less as a result of decreased utilization of facilities. Real and personal property taxes increased due to higher rates and taxation bases. Depreciation expense was greater because of larger capital expenditures. Interest expense declined $1.9 million from 1975 due to lower interest rates and significant reductions in the level of borrowings.

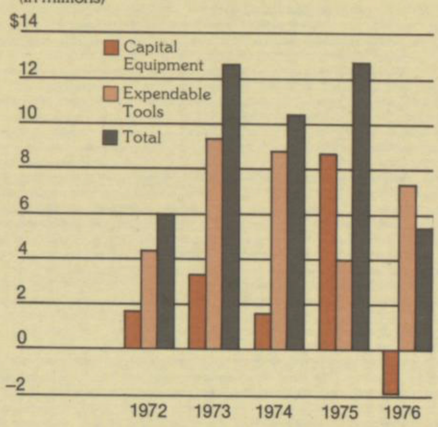
The chart indicates that capital equipment operations produced a loss of almost $2 million in 1976 in contrast to $8.7 million of pre-tax earnings in 1975. This decline was due to lower shipment volume. The increase of 82% in expendable tools earnings over fiscal 1975 reflected improved margins on product, discontinuance of low return or loss operations, and gains from the disposal of two European operations. The income tax rate increased from 45.5% for 1975 to 46.0% of pre-tax earnings for 1976, primarily because the reduction in credits attributable to DISC earnings more than offset increases in the investment credit and in the net effect of income taxes relating to foreign subsidiaries.

For fiscal 1975, consolidated net sales increased $62 million over fiscal 1974, primarily because of the inclusion of LaSalle operations for all of fiscal 1975. Shipments of capital equipment increased as order backlogs were reduced by nearly half. Relatively high cancellations for standard machine tools were experienced for some months in the middle of the 1975 fiscal year, but the rate moderated toward year end. Shipments of expendable tools were lower because of the economic recession. Total cost of products sold increased in 1975 due to higher shipment volume in the capital equipment line and continued inflation.

Net Revenues by Lines of Business
(In millions)

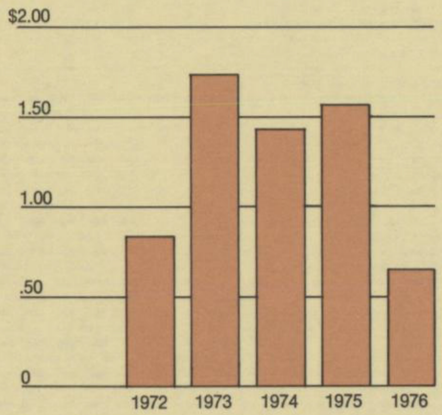


Pre-Tax Earnings (Loss) by Lines of Business
(In millions)



Maintenance and repair expense, payroll taxes, real and personal property taxes and rental expense were all greater, mainly reflecting the inclusion of the LaSalle group for the entire year, as well as higher payrolls, larger inventories and greater utilization of facilities of other operations. Depreciation expense increased reflecting additions to property, plant and equipment in fiscal 1975. Interest expense rose $3.4 million over 1974 due to higher interest rates and to substantial increases in the level of borrowings caused largely by the absorption of the LaSalle debt for the full year and the unusual increase in inventories in the first half of fiscal 1975. Higher earnings before taxes resulted from the inclusion of LaSalle and from higher shipments of capital equipment from other operations. Pre-tax earnings from expendable tools were down because of lower volume. The income tax rate remained nearly constant at 45.5% of pre-tax earnings, compared to 45.6% for 1974.

Earnings per Common Share



Increased credits attributable to DISC earnings and greater investment credits were offset by the absence of income tax credits for losses of some European subsidiaries.

CAPITAL EXPENDITURES AND DEPRECIATION

Acme-Cleveland spent $8.5 million for capital assets in fiscal 1976, as the Corporation continued to strive for more efficient, lower cost production facilities. The most important capital project was the completion of the new parts distribution center in Fremont, Ohio. Construction has been financed by the sale of $4.2 million of industrial revenue bonds. Depreciation in the same period of $4.9 million, even though an all-time high, represented only 58% of total capital expenditures. The balance came from retained earnings. Depreciation is determined generally on the straight-line method using estimated useful lives of plant and equipment. The most advantageous accelerated rates of depreciation available are used for federal income tax purposes, which increases cash flow. In a period of rising prices such as 1976, the dollar amount of depreciation is even less adequate than in a more normal year for the restoration, at current prices, of the real assets consumed in production.

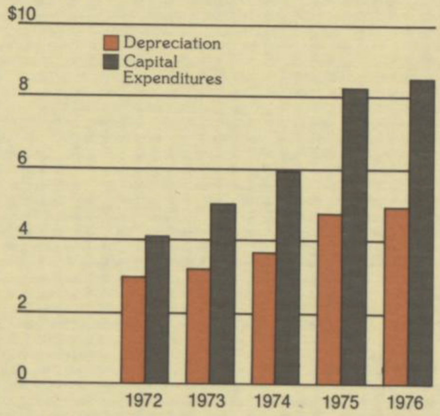
CAPITAL STRUCTURE

The chart shows the changes that have occurred in Acme-Cleveland's capital structure. At the end of fiscal 1976, long-term debt accounted for 32% of capital as compared to 41% for 1975. Capital is defined as the

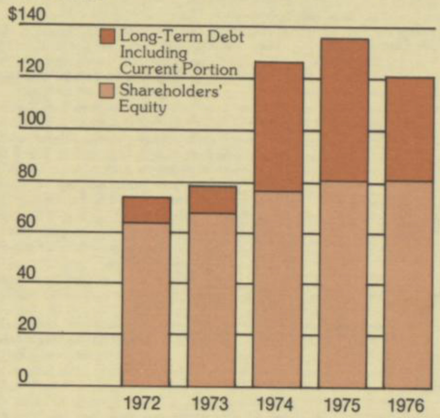
sum of shareholders' equity and long-term debt. During 1976, debt consisted principally of long-term notes issued to four insurance companies and bank loans under a revolving credit agreement. The decrease in such borrowings resulted from reduced working capital needs. The funds from the long-term notes were received in December, 1975, and were used to replace $25 million of bank loans. Note E to the financial statements gives further detail of these long-term debt agreements. Together, they will provide Acme-Cleveland with a stable financial base combined with enough flexibility to meet changing requirements for borrowed capital.

It continues to be Acme-Cleveland's policy to have foreign subsidiaries borrow working capital needs in their home countries. This procedure minimizes currency exchange gains and losses resulting from the transfer of funds from the United States. Lending banks in some countries require guarantees of loan repayments by the parent company under certain conditions. At September 30, 1976, Acme-Cleveland had guaranteed $2.1 million of foreign subsidiary debt.

Capital Expenditures and Depreciation
(In millions)



Capital Structure
(In millions)



WORKING CAPITAL

Working capital at the end of fiscal 1976 was $74.3 million, which represents a decrease of $8.0 million from the end of fiscal 1975. Current assets, particularly inventories and receivables, declined more than current liabilities. The significant reduction in inventories and receivables was brought about by improvement in our control systems, response to a lower sales level, and disinvestment in foreign subsidiaries. The ratio of current assets to current liabilities was 3.83 at the end of fiscal 1976 compared to 2.76 at the end of the previous year. Overall, established credit policies have been closely adhered to and collection experience remains good. The Corporation continues to hold its top credit rating by prompt payment of accounts payable.

CONSOLIDATED

BALANCE SHEET

Acme-Cleveland Corporation and Subsidiaries

	SEPTEMBER 30 1976	1975
ASSETS		
Current Assets		
Cash	**$ 7,461,877**	$ 5,270,300
Marketable securities — at approximate market	**1,518,900**	—0—
Trade receivables:		
Accounts	**18,871,333**	24,977,816
Notes and installment contracts, including amounts due beyond one year (1976 — $483,046; 1975 — $622,522) — Note A	**1,190,597**	1,621,596
Long-term contracts and programs — Notes A and C	**13,705,168**	22,893,108
Total Receivables	**33,767,098**	49,492,520
Inventories — Notes A and C		
Work in process and finished products	**43,614,015**	55,774,684
Raw materials and supplies	**10,804,637**	15,753,426
Total Inventories	**54,418,652**	71,528,110
Other current assets	**3,403,888**	2,910,039
Total Current Assets	**100,570,415**	129,200,969
Property, Plant, and Equipment — on the basis of cost		
Land	**2,877,666**	3,378,295
Buildings	**27,368,195**	27,150,408
Machinery and equipment	**59,149,181**	61,885,540
	89,395,042	92,414,243
Less allowances for depreciation	**45,135,467**	45,360,019
Total Property, Plant, and Equipment	**44,259,575**	47,054,224
Other Assets	**2,232,597**	1,886,036
Remaining Equity Investment in and Advances to Italian Subsidiary — At September 30, 1976 — Note B	**2,938,465**	——
Total Assets	**$150,001,052**	$178,141,229

	SEPTEMBER 30 1976	1975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	**$ 1,303,957**	$ 8,062,372
Current portion of long-term debt	**227,474**	10,515,354
Accounts payable and accrued expenses	**16,370,131**	15,804,215
Salaries, wages, other compensation and payroll taxes	**7,754,821**	10,008,175
Income taxes (including deferred taxes: 1976 — $599,000; 1975 — $1,301,000)	**607,833**	2,494,764
Total Current Liabilities	**26,264,216**	46,884,880
Long-Term Debt — Note E	**38,849,752**	45,153,231
Deferred Income Taxes — Note D	**1,868,320**	2,213,440
Pension and Severance Indemnity	**1,218,708**	2,729,128
Shareholders' Equity		
Serial Preferred Shares, without par value — Note H		
Authorized — 1,000,000 Shares		
Issued and outstanding Series A $1.08, cumulative, convertible 62,215 shares (liquidation preference, $746,580)		
No change during either year	**808,795**	808,795
Common Shares, par value $1 per share — Note H		
Authorized — 10,000,000 Shares		
Issued and outstanding, excluding 22,500 shares held in treasury.		
No change during either year	**4,410,017**	4,410,017
Other capital — No change during either year	**10,327,918**	10,327,918
Retained earnings — Note E	**66,253,326**	65,613,820
	81,800,056	81,160,550
Total Liabilities and Shareholders' Equity	**$150,001,052**	$178,141,229

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS

Acme-Cleveland Corporation and Subsidiaries

	YEAR ENDED SEPTEMBER 30 1976	1975
Revenues:		
Net sales	**$194,088,642**	$231,489,665
Other income	**2,330,387**	2,833,561
Gain on disposition of subsidiaries—Note B	**1,309,363**	—0—
	197,728,392	234,323,226
Cost and expenses:		
Cost of products sold	**143,008,384**	170,670,207
Selling, administrative, and general expense	**38,886,030**	38,712,360
Depreciation—Note A	**4,925,867**	4,757,590
Interest	**5,027,068**	6,919,170
Other	**491,327**	492,409
	192,338,676	221,551,736
Earnings Before Income Taxes	**5,389,716**	12,771,490
Income taxes—Notes A and D	**2,478,000**	5,816,000
Net Earnings	**$ 2,911,716**	$ 6,955,490
Net earnings per Common Share—Note J	**$.65**	$1.56

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Acme-Cleveland Corporation and Subsidiaries

	YEAR ENDED SEPTEMBER 30 1976	1975
Balance at October 1	**$65,613,820**	$61,481,790
Net earnings for the year	**2,911,716**	6,955,490
Cash dividends:		
Preferred Shares, $1.08 per share	**(67,192)**	(67,192)
Common Shares, $.625 in 1975, $.50 in 1976	**(2,205,018)**	(2,756,268)
Balance at September 30	**$66,253,326**	$65,613,820

See notes to consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Acme-Cleveland Corporation and Subsidiaries

	YEAR ENDED SEPTEMBER 30 1976	1975
Source of Funds		
From operations:		
Net earnings	**$ 2,911,716**	$ 6,955,490
Items not requiring outlay of working capital:		
Depreciation	**4,925,867**	4,757,590
Deferred income taxes	**437,280**	109,950
Pension and severance indemnity	**—0—**	1,022,099
Total from Operations	**8,274,863**	12,845,129
Disposals of property, plant, and equipment	**382,616**	314,609
Increase in long-term debt	**27,500,000**	—0—
Changes in net long-term assets as a result of disposition of foreign subsidiaries	**669,194**	—0—
	36,826,673	13,159,738
Application of Funds		
Dividends paid	**2,272,210**	2,823,460
Additions to property, plant, and equipment	**8,528,286**	8,235,977
Reduction of long-term debt	**33,372,425**	5,922,413
Other	**663,642**	(387,193)
	44,836,563	16,594,657
Decrease in Working Capital	**$ (8,009,890)**	$ (3,434,919)
Changes in the Components of Working Capital		
Current assets — increase (decrease):		
Cash	**$ 2,191,577**	$ 1,033,626
Marketable securities	**1,518,900**	—0—
Trade notes and accounts receivable	**(15,725,422)**	(4,622,235)
Inventories	**(17,109,458)**	(1,962,294)
Other current assets	**493,849**	1,020,843
Current liabilities — (increase) decrease:		
Notes payable to banks	**6,758,415**	(675,509)
Current portion of long-term debt	**10,287,880**	(9,663,392)
Accounts payable and accrued expenses	**(565,916)**	13,283,991
Salaries, wages, other compensation, and payroll taxes	**2,253,354**	(869,602)
Income taxes	**1,886,931**	(980,347)
Decrease in Working Capital	**$ (8,009,890)**	$ (3,434,919)

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acme-Cleveland Corporation and Subsidiaries
September 30, 1976 and 1975

NOTE A — ACCOUNTING POLICIES AND PRACTICES
Acme-Cleveland Corporation and its subsidiaries' accounting and reporting policies conform to generally accepted accounting principles and to industry practices on a consistent basis between years. Significant accounting policies and practices are described below:

CONSOLIDATION—(See Note B) The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. Upon consolidation, all significant intercompany items and transactions are eliminated.

Foreign currency exchange gains of $767,000 in 1976 and $380,000 in 1975 were included in net income. Revenues, net losses, and net assets of the foreign subsidiaries approximated $18,450,000, $1,850,000, $4,070,000 at September 30, 1976 and $28,040,000, $900,000, $12,410,000 at September 30, 1975.

TRADE RECEIVABLES — In accordance with industry practice, installment contracts receivable due beyond one year are classified as current assets.

LONG-TERM CONTRACTS — Long-term contracts are accounted for on the percentage of completion method for financial reporting purposes with costs and estimated earnings included in sales when progress is sufficient to estimate final results with reasonable accuracy. When the current contract estimate indicates a loss, provision is made for the total anticipated loss.

INVENTORIES — Inventories are priced at cost (principally last-in, first-out method of determination) not in excess of replacement market. If the first-in, first-out (FIFO) method of determining inventory cost had been used by the Corporation, inventories would have been $27,680,000 and $24,101,000 higher than reported at September 30, 1976 and September 30, 1975, respectively.

During 1976 certain inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1976 purchases, the effect of which increased net earnings by approximately $1,132,000 or $.26 per share.

DEPRECIATION — Depreciation of property, plant, and equipment is computed by the straight-line method. The annual depreciation rates are based on the following ranges of useful lives:

Buildings	20 to 50 years
Machinery and Equipment	3 to 12 years

Repair and maintenance costs are charged against earnings, while renewals and betterments are capitalized by additions to the related asset accounts. The Corporation and its subsidiaries generally record retirements by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts, reflecting any resulting gain or loss in earnings.

PENSION EXPENSE — In general, the Corporation's policy is to fund pension cost accrued. Annual pension expense provides for normal cost and amortization of prior service costs over periods of 15 to 40 years.

CANCELLATION CLAIMS — Revenues from cancellation claims are recognized when final settlement with the customer occurs.

INCOME TAXES — Income taxes were reduced by $667,000 ($382,000 in 1975) for the investment tax credit, which is accounted for by the flow-through method.

Income taxes are provided on worldwide income at the appropriate statutory rates applicable to such income. Since the Corporation plans to finance foreign expansion and operations by reinvestment of the earnings of foreign subsidiaries, no deferred federal income taxes have been provided on approximately $1,806,000 of the unremitted earnings of such subsidiaries.

The Corporation's Domestic International Sales Corporation (DISC), which receives certain tax benefits under provisions of the Revenue Act of 1971, had unremitted earnings of approximately $2,982,000 for which federal income taxes have not been provided.

The Corporation has available operating loss carryforwards in West Germany of $1,850,000 expiring from 1978 to 1981.

NOTE B — DISPOSAL OF CERTAIN OVERSEAS SUBSIDIARIES
During 1976 the Corporation decided to dispose of the manufacturing operations and facilities of its United Kingdom, Netherlands and Italian subsidiaries. Included in 1976 operations are revenues of $11,619,000 and net losses of $1,271,000 generated by these subsidiaries prior to sale or the date of decision to dispose of the subsidiary.

The United Kingdom and Netherlands dispositions are

complete and resulted in after-tax earnings of $1,356,000, or $.31 per share.

The Corporation is still in the process of disposing of its Italian subsidiary. It believes that sale of the subsidiary as an operating unit would be preferable to liquidation, and efforts to locate a buyer are being pursued. However, the Corporation intends to sell the assets of its Italian subsidiary if a buyer cannot be located within a reasonable period of time.

The amount of gain or loss from the disposition of its Italian subsidiary presently cannot be reasonably estimated; therefore, no provision has been made in the Corporation's financial statements.

The Corporation's remaining equity investment in and advances to the Italian subsidiary of $2,938,465 are classified as a non-current asset in the September 30, 1976 consolidated balance sheet. The assets and liabilities of the Italian subsidiary were included in the respective consolidated balance sheet accounts for the year ended September 30, 1975. At November 30, 1976 the Corporation has guaranteed $2,314,000 of Italian subsidiary debt.

NOTE C — LONG-TERM CONTRACTS AND PROGRAMS

Following are the component elements of accounts receivable from long-term contracts and programs:

	(In Thousands)	
	1976	1975
Billed	**$ 8,281**	$15,715
Unbilled costs, fees, and claims:		
Recoverable	**5,264**	6,241
Retainage	**160**	937
	$13,705	$22,893

Unbilled costs, fees, and claims represent revenue earned but not billable under terms of the related contracts. Substantially all of the amounts will be billed during the succeeding year, as units are delivered and accepted by the customers.

Retainage receivables are billable upon completion of the related contracts and acceptance by the customers. These amounts are expected to be collected during the succeeding years.

Inventories at September 30, 1976 include production costs of goods currently in process applicable to long-term contracts and programs aggregating approximately $3,804,000 and $6,060,000 at September 30, 1976 and September 30, 1975 respectively. Progress payments of $1,913,000 were deducted from inventory costs at September 30, 1975.

NOTE D — INCOME TAXES

Deferred income taxes are provided to recognize the effect of timing differences between financial and tax reporting, principally relating to depreciation, pension costs and long-term contracts.

Income tax expense is summarized as follows:

	(In Thousands)	
	1976	1975
Federal		
Current	**$1,300**	$4,372
Deferred	**75**	644
	1,375	5,016
Foreign		
Current	**1,126**	96
Deferred	**(124)**	391
	1,002	487
State and local	**101**	313
	$2,478	$5,816

The difference between the effective income tax rate and that computed by applying the U.S. federal income tax rate of 48% is summarized as follows:

	1976	1975
Effective rate	**46.0%**	45.5%
Investment credit	**12.2**	3.0
Benefits attributable to DISC earnings	**4.7**	6.9
Effect of foreign income taxes	**(23.1)**	(4.9)
State income taxes	**(.9)**	(1.2)
Difference between tax and book basis on disposition of foreign subsidiaries	**10.2**	.0
Other items	**(1.1)**	(1.3)
	48.0%	48.0%

NOTE E — LONG-TERM DEBT

	SEPTEMBER 30	
	1976	1975
Loans from banks under revolving credit agreement	**$10,025,000**	$52,925,000
11% Senior Notes, maturing in annual installments of $2,000,000 beginning on April 1, 1979	**25,000,000**	—0—
7.75% Industrial Revenue Bonds maturing in annual installments of $250,000 beginning on November 1, 1978	**2,500,000**	—0—
Lease obligations to the State of Ohio requiring payments (including interest averaging 6%) of approximately $158,000 annually through December 1, 1980	**679,536**	794,208
Other notes payable at various rates of 4.0% to 9.5%	**872,690**	1,949,377
	39,077,226	55,668,585
Less current portion	**227,474**	10,515,354
	$38,849,752	$45,153,231

Under revolving credit arrangements with a group of banks, the Corporation has the right to borrow up to $18,000,000 until September 30, 1977, at which

point, the revolving credit will be decreased to $16,000,000. The remaining revolving credit may be converted into a four-year term loan, repayable in equal quarterly installments on September 29, 1978. The revolving loans bear interest at the rate of 110% of an amount equal to the prime rate plus ¼ of 1% (the prime rate at September 30,1976 was 7%). Additionally, the revolving credit agreement provides for the payment of a stand-by commitment fee of ½ of 1% per annum on the average unused balance and a facility commitment fee of ¼ of 1% per annum on the total commitment.

The terms of the 11% Senior Notes and the revolving credit agreement require minimum amounts, as defined, of working capital, current assets in excess of current liabilities, and tangible net worth. The agreements also contain certain limitations on the payment of cash dividends and on certain other payments as defined. The amount of unrestricted retained earnings available for dividend purposes was approximately $4,722,000 at September 30, 1976.

Current installments of long-term debt payable in fiscal year 1977 aggregate approximately $227,000. Subsequent annual installments are as follows:

1978	$ 532,000	1980	$4,909,000
1979	$4,931,000	1981	$4,918,000

NOTE F — PENSION AND PROFIT SHARING

The Corporation and its subsidiaries have several pension plans, covering substantially all employees. The total pension expense was approximately $4,479,000 for 1976 and $3,596,000 for 1975. The actuarially computed value of vested benefits for certain plans as of their respective anniversary dates exceeds the market value of their pension funds by approximately $24,248,000 at the valuation date.

The Corporation and its subsidiaries have several employee profit sharing arrangements in effect. Amounts contributed under such arrangements are based upon the annual earnings of the Corporation and subsidiaries or the respective operating units. Such contributions amounted to $1,685,000 in 1976 and $2,475,000 in 1975.

NOTE G — LEASES

Total rental expense for all leases amounted to:

	1976	1975
Financing leases	**$ 406,151**	$ 324,392
Other leases	**1,871,206**	1,926,828
	$2,277,357	$2,251,220

Future minimum rental commitments as of September 30, 1976 for all noncancellable leases are as follows:

		Financing Leases		Other Leases	
	Total	Buildings	Equipment	Buildings	Equipment
1977	$1,136,256	$ —0—	$ 355,119	$227,936	$ 553,201
1978	653,452	—0—	182,391	215,196	255,865
1979	494,478	—0—	106,264	193,731	194,483
1980	184,316	—0—	74,664	53,441	56,211
1981	77,552	—0—	61,024	6,879	9,649
1982-1986	16,650	—0—	15,256	—0—	1,394
	$2,562,704	$ —0—	$ 794,718	$697,183	$1,070,803

The impact on net earnings would not be significant assuming all noncapitalized financing leases were capitalized, related assets were amortized on a straight-line basis, and interest cost accrued.

NOTE H — CAPITAL STOCK

STOCK OPTIONS — A stock option plan authorizes the issuance of Common Shares to key employees at not less than the market price on dates of grant. The options become exercisable over a period of five years, beginning one year after date of grant. At September 30, 1976, options for 20,750 shares (12,450 shares at September 30, 1975) were exercisable and 7,800 shares (116,800 shares at September 30, 1975) were available for future options.

A summary of the changes in outstanding stock options follows:

		Option Price	
	Shares	Per Share	Aggregate
Outstanding at October 1, 1974	74,050	$14.50 to $23.38	$1,440,418
Cancelled or expired	40,850	23.38	954,868
Outstanding at September 30, 1975	33,200	14.50 to 14.75	485,550
Granted	109,000	8.81	960,563
Outstanding at September 30, 1976	142,200	$ 8.81 to $14.75	$1,446,113

PREFERRED SHARES — The Series A Preferred Shares have voting rights on a share-for-share basis with the Common Shares, asset preference upon liquidation or dissolution of $12 per share, the right to convert the shares on a share-for-share basis into Common Shares, and the Corporation has the right after June 30, 1979, to redeem the shares at a price of $13 per share.

RESERVED SHARES — 212,215 Common Shares are reserved for issuance under the stock option plan and the conversion rights of the Preferred Shares.

NOTE I — CONTINGENCIES
Under the provisions of certain sales contracts with several major foreign customers, the Corporation is required to guarantee compliance with contract provisions by obtaining letters of credit. Outstanding letters of credit under such contracts approximated $2,690,000 at September 30, 1976. The Corporation expects to continue to comply with all contract provisions, and no material losses are anticipated under these guarantees.

NOTE J — EARNINGS PER SHARE
Net earnings per common share are based on the weighted average number of Common Shares outstanding after recognition of dividends paid on convertible Preferred Shares. Fully diluted earnings per share would not be materially different from net earnings per share as reported if all outstanding Preferred Shares were assumed to be converted to Common Shares. The inclusion of stock options (common stock equivalents) would be anti-dilutive.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Acme-Cleveland Corporation
Cleveland, Ohio

We have examined the consolidated balance sheet of Acme-Cleveland Corporation and Subsidiaries as of September 30, 1976 and 1975, and the related consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note B to the financial statements, the Corporation is disposing of its Italian subsidiary in which it has investment, advances and guarantees of $5,252,000 at November 30, 1976. The amount of gain or loss cannot be estimated; therefore, no provision has been made in the Corporation's financial statements.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Acme-Cleveland Corporation and subsidiaries at September 30, 1976 and 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

Cleveland, Ohio
November 30, 1976

ACME-CLEVELAND CORPORATION

BOARD OF DIRECTORS

Arthur S. Armstrong
Chairman of the
Finance Committee
Acme-Cleveland Corporation

Ralph M. Besse
Partner — Squire, Sanders
& Dempsey, Law Firm
Cleveland, Ohio

Carleton Blunt
Retired
Delray Beach, Florida

Raymond E. Channock
Retired, formerly President
Acme-Cleveland Corporation

Charles W. Clark
Group Vice President
Acme-Cleveland Corporation,
and President of the
National Acme Division

W. Paul Cooper
President and Chief
Executive Officer
Acme-Cleveland Corporation

Robert R. Cosner
Consultant to
LaSalle Machine Tool, Inc.
Subsidiary of Acme-Cleveland
Corporation, Warren, Michigan

Jacob B. Perkins
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The Hill Acme Company,
Machine Tool Manufacturer,
Cleveland, Ohio

Karl H. Rudolph
President and Chief
Executive Officer
The Cleveland Electric
Illuminating Company,
Public Utility
Cleveland, Ohio

Robert I. Sattler
Group Vice President
Acme-Cleveland Corporation
and President of
LaSalle Machine Tool, Inc.
Subsidiary of Acme-Cleveland
Corporation, Warren, Michigan

Earl P. Schneider
Partner — Thompson, Hine
and Flory, Law Firm
Cleveland, Ohio

Mr. Rudolph Mr. Cooper

Mr. Perkins
Mr. Besse Mr. Sattler

Mr. Schneider
Mr. Blunt Mr. Channock

Mr. Armstrong Mr. Cosner Mr. Clark

ACME-CLEVELAND CORPORATION

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President and Chief Executive Officer

Charles W. Clark
Group Vice President and President of the National Acme Division

Robert A. Harvey
Group Vice President and President of The Cleveland Twist Drill Company

Robert I. Sattler
Group Vice President and President of LaSalle Machine Tool, Inc.

Herbert von Wolff
Group Vice President and President of the Shalco Systems Division

Melvin A. Hansen
Senior Vice President

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Vice President — Finance and Controller

Herbert A. Gardner
Vice President — Marketing

Henry R. Hatch III
Vice President and Secretary

Harry H. Leckler
Vice President — Public Relations

James E. Munger
Vice President — Personnel

Thomas M. Skove
Treasurer

James M. Tompkins
Assistant Controller and Assistant Secretary

Leonard W. Schiemann
Assistant Treasurer

ACME-CLEVELAND CORPORATION

OPERATIONS

CLEVELAND TWIST DRILL COMPANY

Cutting and Threading Tools, Cleveland, Ohio; Mansfield, Massachusetts; Providence, Rhode Island; Kent, Washington

Cleveland Twist Drill Canada Ltd., Rexdale (Toronto), Ontario, Canada

Cleveland Twist Drill GmbH, Loffingen, West Germany

Herramientas Cleveland S.A., Pachuca, Mexico

Licensee:

Clarkson International Tools, Ltd., Nuneaton, England

LaSALLE MACHINE TOOL, INC.

Manufacturing Systems, Warren, Fenton and Holly, Michigan

LaSalle Machine Tool of Canada Ltd., Windsor, Ontario

Licensee:

Metalexport, Warsaw, Poland

NATIONAL ACME DIVISION

Machine Tools and Special Machines, Cleveland, Ohio

Licensees:

Alfred Herbert Limited, Coventry, England

Mitsubishi Heavy Industries, Ltd., Tokyo, Japan

NAMCO CONTROLS DIVISION

Electrical Controls, Cleveland, Mentor and Jefferson, Ohio

Licensees:

Herbert Controls & Instruments, Ltd., Letchworth, Hertfordshire, England

Fritz Dienes GmbH (switches only), Muhlheim, West Germany

SHALCO SYSTEMS DIVISION

Foundry Systems and Equipment, Cleveland, Ohio; Kewanee, Illinois; Port Huron, Michigan

Automotive Pattern, Detroit, Michigan

Shalco Systems — Acme-Cleveland GmbH, Homberg/Ohm, West Germany

Licensee:

Roterid Companhia Mecanica, Sao Paulo, Brazil

ACME-CLEVELAND DEVELOPMENT COMPANY

Highland Heights, Ohio

OTHER FACILITIES

Acme-Cleveland Distribution Center, Fremont, Ohio

Cynthiana Manufacturing Plant, Cynthiana, Kentucky

ACME-CLEVELAND CORPORATION P.O. BOX 5617 • CLEVELAND, OHIO 44101

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